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THE SPANISH DEBT.

BY ARTHUR HOUGHTON.

THE origin of the foreign debt of Spain is traced to royal bills placed in the hands of London and Amsterdam bankers, with a lien on the proceeds of Mexican mines and other colonial revenue. The debt of Spain had by degrees increased to \$350,000,000 at the close of the eighteenth century, and some idea can be formed of the rate at which the borrowing went on after 1800 from the figures of the loans between June 17th, 1801, and July 21st, 1848—namely, forty-four interior operations of credit in Spain of which the nominal value was \$182,937,500, and seventeen exterior operations of credit, chiefly in London, Amsterdam and Paris, for \$366,578,500. A few of these served to reimburse in part some favored previous loans, but in the end the creditors of Spain, native and foreign, were not better treated by the parliamentary and constitutional governments of our century than they had been in the days of absolute monarchies, and for the same reason, lack of means to face past engagements and present necessities. As early as 1833 Count Toreno tampered with the exterior or foreign debt, thereby beginning the struggle between Spain and her foreign creditors that terminated in 1882, after nearly fifty years of protests, of negotiations, that wrecked the credit of the country and long excluded its stock from European money markets. Two of Spain's ablest finance ministers, Mon in 1843-45 and Bravo Murillo in 1851, proposed so-called consolidations and conversions that were virtually bankruptcy imposed, *nolens volens*, as a composition upon the long-suffering creditors, who had not been paid a coupon for fifteen years. The foreigners would have nothing to do with these arrangements, and the credit of Spain dropped so low that between 1851 and 1872 she had to issue \$881,000,000, nominal, of three per cent. stock to get \$205,-

000,000 effective cash, to cover mostly her constantly increasing floating debts that simply represented her annual deficits. Spanish finance continued much in the same state until the fall of Isabella II. in 1868, though one of her last ministers, Don Pedro Salaverria, who remained in office several years, did his utmost to reduce deficits and satisfy the creditors of the country. Matters did not mend as regards the debts and deficits during the Spanish Revolution from 1868 to the end of 1874, nor could it have been otherwise in the generally disturbed state of the peninsula, when the governments of Marshal Prim, of King Amadeo, of the Spanish Federal Republic of 1873, and of Marshal Serrano in 1874 were confronted with a formidable rising in Cuba, and a no less troublesome Carlist civil war in fifteen Spanish provinces at home, let alone very serious Federal Republican insurrections in Southern Spain and a permanent Alphonsoist conspiracy in the army, navy, civil service and the upper classes of Spanish society. These causes led to an expenditure and a decline of revenue that obliged the governments of the Revolution to stop the payment of the little that was still being paid of the interest of the debts, and to resort to very costly operations of credit that increased considerably the floating and treasury debts. In consequence, after the military pronunciamientos that restored the Bourbons in December, 1874, the governments of Alphonso XII. had much trouble in putting Spanish finance in order, though at first they confined their efforts to the payment of the coupons of the treasury debts and to the payment of about a third of the interest of the exterior and interior debts. Seven years passed before the governments of the Restoration were in a position to undertake a settlement of the then existing debts, which put them on a footing that has lasted eighteen years and been really a new and promising stage in Spanish finance.

It was a Liberal cabinet, at the head of which was Señor Sagasta, the chief of the dynastic Liberals during the last quarter of the nineteenth century, and his finance minister, Don Juan Camacho, that mooted the idea of a consolidation and conversion of the treasury debts and of the exterior and perpetual debts of Spain in 1882. First of all, \$345,700,000 of four per cent. stock redeemable in forty years was created, to replace various treasury issues and to wipe off the floating debt. The debts thus converted had cost Spain annually \$38,642,000, and the new redeem-

able fours only required \$19,078,025 a year. Then, after comparatively short negotiations, the native and foreign bondholders of three per cent. consols assented to a conversion into a new four per cent. perpetual debt whereby they agreed to sacrifice a large proportion of their capital and one and a quarter per cent. of their nominal interest. Thus \$1,909,753,000 of the old exterior and interior three per cent. consols and railway state-guaranteed bonds were converted into \$1,064,799,000 of new four per cent. consols or perpetual debt, of which \$394,230,200 were exterior debt and the remainder interior. The Finance Minister made an agreement on June 28th, 1882, with the London council of foreign bondholders by which Spain promised never to put taxes on the exterior debt and to pay the coupons thereon in gold. All these engagements have so far been kept.

The next and last evolution of the reorganization of the Spanish debts took place after the close of the war with the United States. It was no easy task that the Spanish Government had then to undertake. Spain had not only to face the cost of her struggle with Cuba from February, 1895, to April, 1898, the cost of her struggle with the Philippine insurgents from August, 1896, to April, 1898, the cost of the war with the United States, about \$300,000,000, but she had to add to her own consolidated debts the debts of Cuba and the Philippines, for which she had given the guarantee of the Imperial Exchequer, \$231,050,300. These burdens were added to Spanish budgets at a time when the imperial floating debt had reappeared and accumulated at such a pace between 1882 and 1900 out of annual deficits that it amounted on June 1st, 1900, to \$121,216,500, though fifty million dollars of four per cent. redeemable stock, similar to that of 1882, had been issued in 1891 to consolidate \$45,000,000 of floating debt.

The Madrid government set to work with decision to put before the country a complete statement of the situation thus created, and of the necessary sacrifices that have been manfully accepted by all concerned. An able and determined Finance Minister, Señor Villaverde, showed the Cortes that if Spain was to keep all her engagements to the letter he must ask them for sixty million dollars more of "ways and means" annually than his predecessors had, which it would be simply impossible to get from taxation alone or from retrenchment in the budget on the old

lines. Therefore, he proposed to get from the ratepayers about eighteen million dollars more annually through new taxes and old taxes much recast to produce more revenue, eight million dollars of reductions in expenditure of every kind, and at least thirty-four million dollars from native Spanish bondholders, his intention not being to demand of foreign bondholders any sacrifice at first, and until he had time to submit to them the expediency of assisting a country that was endeavoring to fulfill its engagements as far as possible under very great difficulties. Señor Villaverde was authorized by the Cortes to draw the above \$34,000,000 from a suspension of all amortization of the colonial debts and of the Spanish four per cent. redeemable debts of 1882 and 1891, and from a tax of twenty per cent. annually upon the coupons of all the interior debts of Spain, of all the colonial debts and of the part of the exterior debt even that is held by Spaniards. An affidavit had been established by Señor Villaverde's predecessor, Puigcerver, to clearly determine who were the *bona fide* foreign holders of four per cent. exterior debt. The Finance Minister, who had "undertaken the reorganization of the finances of the budget, and of the taxation of Spain," to use his own words, further obtained from the Cortes legislative authorization to reorganize the debts. A law of March 29th, 1900, enacted that the Cuban debts of 1886 and 1890, the Philippine debt of 1896, the Spanish redeemable four per cent., should be converted into Spanish four per cent. consols in such wise as to make no increase in the annual amount that the State would have to pay for interest on these \$531,778,000 of stock under the law of August 2d, 1899, which suppressed their amortization and inflicted twenty per cent. income tax on their coupons. By another law, the Spanish holders of about \$146,333,720 of exterior debt were offered a bonus of ten per cent. to convert their stock into interior four per cent. consols. Señor Villaverde had been also authorized by the Cortes to convert the floating debt and the war debts and outstanding arrears of the colonial treasuries under the same law of August 2d, 1899, but Parliament had put a limitation to the amount of money that was to be raised for these purposes, fixing the maximum at \$260,000,000, effective, which was utterly insufficient to cover in all \$440,000,00 of floating debt, treasury debts, war pagares and colonial arrears. So Señor Villaverde elected to make use of the Cortes' authorization to raise only the \$198,356,500

required to convert or pay off at par the Spanish imperial floating debt of \$121,216,500, the customs guaranteed war bonds of \$58,320,000, and \$18,140,000 of war pagares held by Spanish bankers. This operation was successfully carried out on June 4th, 1900, at Madrid, as the bondholders so readily accepted the proffered conversion that, out of \$240,000,000, nominal, of five per cent. redeemable stock, issued with a lien on the revenue of the State tobacco monopoly, to raise the \$198,356,500, effective, wanted, only \$38,000,000 were not taken up by the bondholders, and were covered twenty-five times in two days by public subscription at the Bank of Spain. When the conversions of debt are completed, the reorganized debt of Spain will consist in the exterior debt bearing four per cent. interest, payable in gold, exempt from income tax, and held by foreigners, to the amount of \$208,120,000; the interior four per cent. perpetual debt, with coupons payable in pesetas, and liable to twenty per cent. annual income tax and amounting to \$1,276,200,000; the new five per cent. redeemable stock, \$240,000,000; the war pagares still held by the Bank of Spain, amounting to \$188,965,528, and the credits opened by the Bank of Spain to pay the arrears of colonial treasuries, amounting to \$30,000,000.

In the Budget for 1900, which the Cortes voted last winter, the credits asked to meet the requirements of the debt amounted in all to \$80,711,427. This sum represents four-ninths of the total annual expenditure of the country, which was fixed in the Budget at \$181,090,365. Spaniards are wont to say that four-ninths of their estimates of expenditure are the consequences of the errors and mistakes of the past, at present represented still by nearly two billions of dollars of consolidated and floating debt, whilst other four-ninths are taken up chiefly by unproductive expenditure, and about one-ninth only reserved for such things as public works, education, arts and the home and financial departments of public administration. When the government of Señor Silvela framed what his fellow-countrymen styled the first budget of the reorganization of Spanish finance, public opinion, and especially the Chambers of Commerce, the industrial and commercial classes, the trades and guilds, and the agricultural interests found fault with it because they could not discover in the estimates anything like sufficient or sincere retrenchment, the reform of abuses and sinecures, the reorganization of services to

prepare further retrenchment, which the majority of the nation expected as the natural consequences of the lessons of adversity. In fact, one of the most striking symptoms of the change that is coming over the spirit of the nation is this disposition to tell its rulers and politicians that the aim of governments must be in future to cut down unsparingly the unproductive chapters of the budget.

The efforts of the government and of the Cortes did not succeed in realizing on paper in the budget more than \$177,199,543 of ways and means to face the \$181,090,365 of probable expenditure. The reorganization of Spanish finance thus started with a deficit of \$3,890,822. The ways and means of the Spanish budget were drawn from the following sources: Donations and direct taxes, \$75,204,158; indirect taxation, \$65,128,000; monopolies and services managed by the administration itself, \$31,330,004; revenue of state property and royalties, \$3,915,650; sales of state property, \$404,000; treasury resources, \$1,001,000; revenue from Fernando Poo, \$16,229. Under the head of donations and direct taxation are interesting items like \$200,000 of the civil list volunteered by Queen Christina; \$867,400 volunteered by the clergy and nuns with the permission of the Pope; \$32,133,408 from real property and taxes on live-stock rearing; \$8,566,080 from the industrial and commercial rates; \$21,440,000 from the income tax created this year with a view to make all revenues, whether from capital or profits of business, art, intellectual pursuits and labor, contribute to the budget. Under the same head we see that the numerous and productive mines of Spain only pay \$1,120,000 of taxes, and that the death rates, succession duties and transfers of property produce \$7,200,000 out of the new and considerably increased scales established this year. Carriages produce \$156,000, gambling cards \$100,000, casinos and clubs \$120,000. It is curious to see that four Spanish provinces, Alava, Guipuzcoa, Biscay and Navarre, have still the right to pay their taxes in a lump sum of only \$1,341,198, which they assess and raise according to their own local customs and statutes styled "fueros."

Under the head of indirect taxation there are some interesting features. Foremost are the results of the ultra-protectionist policy adopted in 1891-92 by the late Señor Canovas, which had reversed the mild free-trade policy which had prevailed from the days of the Spanish Revolution down to 1891 almost uninter-

edly. Under the present protectionist tariff the import duties are expected to produce \$24,000,000, the export duties \$600,000. Transport duties, collected at the ports and frontiers, and levied on passengers and merchandise inland on railways and rivers, produce \$4,700,000. Duties on sugar are expected to give \$3,500,000. Duties on alcohol are now virtually prohibitive on foreign alcohols, and tend to encourage the distillation of native alcohols now practiced on a large scale all over Spain. Telegraph and postage stamps produce \$4,300,000, and stamped paper and duties \$7,100,000. New taxes on gas, electricity and carburo of calcium are reckoned at \$900,000. The most unpopular of Spanish taxes "Los Consumos," or rather the share of the State in these octrois or excise duties levied upon articles indispensable for the daily consumption of all classes, entering every Spanish town and most rural parishes, produces \$18,920,000.

Under the head of monopolies and services conducted by the administration are the tobacco monopoly, which has been in the hands of a company and is expected to give \$24,600,000; matches, also managed by a company, pay \$1,000,000; the explosives monopoly that is to furnish a hundred thousand dollars, the state lottery which produces \$4,600,000 a year on an average. The properties and rights of the State are ways and means representing the little that has not been used up by past governments of the vast national resources, a miserable remnant indeed, in which the unfinished liquidation of Church and State property is expected to give \$400,000; canals and rivers, \$240,000; the mines of Linares, \$240,000; the famous quicksilver mines of Almaden, managed by the Paris and London Rothschilds, \$1,200,000; the salt mines of Torravieja, \$126,000. Under the fifth and last section of ways and means we find "*Recursos del Tesoro*," Treasury resources of insignificant items, except the money that is paid by young men liable to military service under the system of conscription which calls out about 70,000 to 90,000 lads reaching their twenty-first year during the budgetary twelvemonth. Hitherto, three hundred dollars sufficed to buy a man off from service at home, and four hundred dollars to avoid the colonial service, which inspired the families of the quintos with such dread, during the Cuban and Philippine wars from 1895 to 1898, that the revenue derived from the redemption money rose from the old peace average of \$1,800,000 a year to over \$8,000,000.

One last trait of the financial policy of the last twenty-five years of the nineteenth century must be placed on record, as it has seriously affected the credit of Spain. From 1875 to 1900, all the governments of the restored monarchy have gone on developing the relations of the Treasury with the Bank of Spain. That establishment had been at first founded with a view to be, as it is at present, the only bank of issue in the peninsula. The maximum of the note issue of the Bank of Spain was at first fixed at \$150,000,000 and then increased in 1891, when its charter was renewed for thirty years, to \$300,000,000, on condition that the Bank should keep cash in hand, half in gold, half in silver, equal to a third of its note issue. The Bank had pushed its issue of notes first to \$150,000,000 and then to \$300,000,000, not on account of the calls of the public, not to further trade, agriculture, or mining interests, but exclusively on account of the growth of its connection with the Treasury. In 1882, when the Treasury debts were converted by Camacho, among the creditors of the Treasury who accepted four per cent. redeemable stock, the Bank of Spain stood for such an amount that eighteen years' amortization has only reduced the stock still held by the Bank to about \$74,000,000. In 1891, when more floating debts were converted, the Bank received and has kept \$757,000 of four per cent. redeemable stock. Then again, in the floating debt that existed on June 1st, 1900, the Bank of Spain held \$29,780,225. Nor is this all, as the Bank of Spain was the principal source from which the Treasury drew resources for the Colonial and American wars—so much so that, at the present moment, that Bank holds \$188,965,528 of war pagares guaranteed by the Imperial Treasury and is creditor of the State for \$30,000,000, being the amount of credits opened with the said guarantee for the liquidation of arrears of the late colonial treasuries. The consequence of all this has been, in the first place, that the note issue of the Bank of Spain, during the war with the United States, in May, 1898, grew so close to the \$300,000,000 limit fixed by the charter of 1891, that the Cortes had to empower the Bank to push its note issue over that limit, on condition that all notes issued above the 1891 figures should be guaranteed by cash in hand, half in gold, half in silver, equal to the value of half the notes thus issued over the original \$300,000,000. Fortunately, the Bank has succeeded in keeping its note issue very little over \$300,000,000, and

when the Treasury debts were converted on June 4th, 1900, a step in the proper direction was taken by reimbursing the Bank \$29,-780,225 of five per cent. Treasury floating debt bonds. The note issue of the Bank on August 10th, 1901, was \$328,207,555, against cash in hand to the amount of \$70,061,746 in gold and \$84,948,-851 in silver. The balance sheets of the Bank also reckon as cash \$5,605,986 in the hands of its foreign correspondents. It must be borne in mind that bank notes are practically the chief currency of a country where silver is only used for small business transactions and where gold and foreign exchanges still average thirty-nine per cent. premium. Nevertheless, the Spanish Premier, Silvela, and the Minister of Finance, Villaverde, were sanguine that they would be more fortunate than their predecessors. They argued that the proceeds of taxation must soon be improved by what is visible in every direction in the country barely eighteen months after several years of colonial and foreign wars, a disastrous peace and an enormous increase of taxation. They pointed to the extraordinary rebound of trade, especially imports of raw materials, combustibles, machinery, chemicals for native industries, and to the exports of the natural products of the soil and of the mines of the peninsula, which have caused an unprecedented recovery in the traffic of all the railway lines of the kingdom so long on the verge of bankruptcy. They insisted upon the really remarkable confidence shown by purely native savings and native capital being invested in State, provincial and municipal loans, and, what is a far more healthy symptom, in local enterprises, public works, railways, mines, industries, banks, syndicates, credit companies, in fact now competing successfully with the Belgians, French, Germans and British for Spanish business. They were even nearer the truth when they asserted that there is much assessable property which is never made to contribute its proper and fair share to taxation, owing to the well-known and traditional frauds in declarations that were revealed by the last survey in four southern provinces alone when military engineers conducted the said survey, or owing to the equally notorious complicity of public officials trembling before political and electoral magnates. In regard to this state of things, it must be borne in mind that the exchequer and the custom-house in Spain suffer the consequences of the exaggeration of the tariff duties and of the taxes. The tariff duties range from a fiscal minimum in the

minority of cases of fifteen per cent. *ad valorem* to three hundred per cent. The taxes on real property, agriculture, live stock, vary from a minimum of eighteen to twenty-three per cent., exclusive of municipal and provincial rates.

Spain is, like all European nations, even if at a slower pace than some, passing into a stage of her financial reorganization in which the politicians will sooner or later have to give precedence to the moral, intellectual and material interests of the nation that have been and are yet so constantly sacrificed to monarchical, dynastic, religious, political, caste and military considerations, or, as a great Spaniard said a very few years ago, to the unfortunate habit of putting what is accidental and transitory above what is permanent and essential. The new spirit is abroad, and stirring all the better and nobler instincts in the ranks of that very middle class which is the principal factor in the widespread demonstrations of the recuperative force of the people of the country. The question is, how soon this awakening will find an echo in the governing classes, and how soon those classes will understand that it is wiser to take the lead of legitimate currents of public opinion than to resist the logical sequence of historic progress in the life of nations. The grandiloquent words of regeneration and reorganization have been very prominent in the speeches and programmes of Spanish statesmen since the close of the war with the United States, but so far very little has been attempted to accomplish either. It stands to reason that neither reorganization nor regeneration can be carried out, at any rate in Spanish finance, without touching very delicate reforms affecting so-called vested interests, traditions, habits in church and state, in the administration and all public services, in the army and navy, which would array against reformers and against progress the still numerous and powerful reactionary elements of the present state of things.

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